

Message Text

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PAGE 01 SAO PA 01860 292112Z
ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
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R 291350Z JUN 78
FM AMCONSUL SAO PAULO
TO SECSTATE WASHDC 8623
INFO AMEMBASSY BRASILIA
AMEMBASSY ASUNCION
AMCONSUL RIO DE JANEIRO

C O N F I D E N T I A L SAO PAULO 1860

FROM COMMERCIAL COUNSELOR

E.O. 11652: GDS
TAGS: ENRG, BEXP, BR
SUBJ: MAJOR PROJECTS: ITAIPU TURBINE GENERATOR AWARD

REF: A) SAO PAULO 1798, B) RIO DE JANEIRO 2876, C) ASUNCION 2553

1. LEO WILKOWZYNSKI, SALES MANAGER, HEAVY EQUIPMENT, OF
GENERAL ELECTRIC DO BRASIL, TOLD THE COMMERCIAL COUNSELOR
THAT GE WAS VERY SURPRISED AT THE AWARD OF ALL 18 TURBINE/
GENERATOR UNITS TO THE EUROPEAN CONSORTIUM, CIEM, BECAUSE
SOME TIME BACK ELECTROBRAS HAD CARRIED OUT AN AUDIT OF THE
CAPACITY OF THE THREE CONSORTIA WHICH HAD RESULTED IN A
FINDING THAT NONE HAD THE CAPACITY TO PRODUCE THE ENTIRE
AMOUNT. SUBSEQUENTLY GE HAD BEEN LED BY ITAIPU BINACIONAL
TO UNDERSTAND THAT IT WAS NOT EXPECTED TO SUBMIT A BID FOR
ALL 18. ACCORDINGLY, GE SUBMITTED BIDS FOR 6, 8, 10 AND
12 UNITS, WITH THE UNIT PRICE DECREASING AS THE NUMBER
INCREASED. GE HAD EXPECTED TO GET 4 TO 6 AND THAT
CIEM WOULD GET 8 TO 12.

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2. WILKOSZYNSKI SAID GE FELT THE COMMITTEE SET UP
WITHIN ITAIPU BINACIONAL TO EVALUATE THE PROPOSALS HAD
BEEN HOSTILE TOWARD GE. HE SAID THE KEY ISSUE IN MAKING
THE AWARD WAS THE DEGREE OF NATIONAL CONTENT, BECAUSE
FINAME, THE SUBSIDIARY OF THE NATIONAL DEVELOPMENT BANK
WHICH WILL FINANCE THE LOCAL CONTENT, WILL OFFER A

LOWER INTEREST RATE THAN CAN BE OFFERED FOR THE IMPORTED COMPONENTS. THUS THE HIGHER THE LOCAL CONTENT THE LOWER THE FINANCIAL COST OF THE PACKAGE. HE SAID GE'S OFFER HAD A NATIONAL CONTENT OF OVER 75 PERCENT, BUT THAT THE ITAIPU COMMITTEE, APPLYING HARSH CRITERIA, REDUCED THIS TO 70 PERCENT. APPLYING MORE LIBERAL CRITERIA, THE COMMITTEE ASSIGNED THE CIEM PROPOSAL A NATIONAL CONTENT OF 85 PERCENT. THIS GAVE THE EUROPEAN OFFER A 3 PERCENT INTEREST RATE ADVANTAGE. LIKEWISE, THE COMMITTEE CONSIDERED THE CIEM PROPOSAL TO INVOLVE A HIGHER DEGREE OF LOCAL ENGINEERING AND THUS TO QUALIFY, UNDER FINAME RULES, FOR ANOTHER ONE PERCENT INTEREST RATE DIFFERENTIAL. WILKOSZYNSKI SAID THAT THE PRICE BID BY GE WAS LOWER THAN THAT OF CIEM, BUT THAT WITH THE 4 PERCENT INTEREST RATE DIFFERENTIAL, THE EUROPEAN BID WAS RULED TO BE CHEAPER. HE ATTRIBUTED THE COMMITTEE'S ATTITUDE TO THE FACE THAT CIEM WAS FREE TO NEGOTIATE "WITH A FLEXIBILITY WHICH WOULD BE IMPROPER FOR US" AND POSSIBLY TO PRESIDENT GEISEL'S SUPPOSED PRO-GERMAN SENTIMENTS.

3. WITH RESPECT TO THE QUESTION OF THE ABILITY OF THE CIEM CONSORTIUM TO PRODUCE ALL 18 UNITS IN ACCORDANCE WITH THE REQUIRED DELIVERY SCHEDULE, WILKOSZYNSKI SAID CIEM COULD DO IT IF ITS MEMBER FIRMS DID NOT ALREADY HAVE AN ORDER BACKLOG. IN FACT, THEY ALREADY HAVE COMMITMENTS TO PRODUCE 20 TURBINE/GENERATOR UNITS FOR

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1981-85 DELIVERY. THESE ARE 6 FOR THE ITUMBIARA HYDRO-ELECTRIC PLANT, 5 FOR PAULO AFONSO, 5 FOR ITAPERICA, AND 4 FOR EMBORCACAO. HE THEREFORE CONSIDERED IT LIKELY THAT CIEM WOULD HAVE TO ENGAGE IN SUBCONTRACTING. HE NOTED THAT THERE WERE ALREADY RUMORS THAT TWO MEMBERS OF THE WESTINGHOUSE CONSORTIUM, COEMSA (FINSIDER ANSALDO) AND MITSUBISHI, MIGHT BE ENGAGED AS SUBCONTRACTORS TO CIEM. (IN THIS CONNECTION, THE MINISTER OF MINES AND ENERGY, SHIGEAKI UEKI, IS REPORTED TO HAVE MADE A PUBLIC STATEMENT ON JUNE 27 THAT "THE VOLUME OF ORDERS IS VERY LARGE AND PRACTICALLY ALL THE HEAVY EQUIPMENT FACTORIES ARE GOING TO PARTICIPATE." HE IS REPORTED TO HAVE ADDED, HOWEVER, THAT "IT IS UNLIKELY THAT THE GE CONSORTIUM WILL BE SUBCONTRACTED, BECAUSE THERE ARE PROBLEMS OF A TECHNOLOGICAL NATURE.")

4. WILKOSZYNSKI SAID GE WAS STILL HOPEFUL OF GETTING THE CONTRACT TO SUPPLY THE HVDC TRANSMISSION EQUIPMENT FOR ITAIPU, WHICH, UNLIKE THE TURBINE/GENERATOR PROPOSAL, WOULD INVOLVE THE IMPORTATION OF A VERY SUBSTANTIAL AMOUNT OF EQUIPMENT FROM THE UNITED STATES. HE THOUGHT IT LIKELY THAT THE BIDS FOR THE HVDC EQUIPMENT

WOULD BE EVALUATED IN SEPTEMBER OF THIS YEAR.
POVENMIRE

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